MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2015/2016

BAC2634 – FINANCIAL ACCOUNTING & REPORTING II

(All Section / Groups)

12 OCTOBER 2015
2.30 p.m – 5.30 p.m
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 7 pages with 5 questions only.
2. Answer **ALL** questions in the answer booklet provided.

QUESTION 1

Big Steel Berhad is a large public listed company involved in the construction industry. On 1 January 2013, Big Steel Berhad signed a contract with Academia Berhad to construct a college. The construction is expected to take three years to complete. Big Steel Berhad recognised revenue based on cost incurred to date.

The following are details of the contract as at 31 December 2013 and 31 December 2014:

	31 December 2013 RM'000	**31 December 2014 RM'000**
Contract price	200,000	200,000
Variation (increase)	-	10,000
Total estimated costs	140,000	-
Costs incurred to date (including purchase of material for future work amounting to RM4 million)	60,000	-
Estimated cost to complete (excluding the purchase of material for future work amounting to RM4 million)	80,000	-
Costs incurred to date	-	120,000
Estimated cost to complete	-	30,000
Progress billings	70,000	172,000
Cash received on billings	68,000	160,000

Instructions:

a) MFRS 118: *Revenue* prescribes that the outcome of the long-term contract can be estimated reliably when conditions are satisfied. Discuss the four (4) conditions and relate it with the case of Big Steel Berhad.

(6 marks)

b) Explain the limitation of using MFRS118 in preparing the financial statement of Big Steel Berhad.

(2 marks)

c) In accordance to MFRS 111: *Construction Contracts*, prepare the extracts of statements of comprehensive income and statements of financial position for the year ended 31 December 2013 and 31 December 2014.

(12 marks)
(Total: 20 marks)

Continued...

QUESTION 2

Part A

The following are the Statements of Financial Positions of ABC Bhd as at 31 December 2013 and 2014.

	2013 RM'000	2014 RM'000
Non-current assets		
Property, plant and equipment [note (i) and (ii)]	24,000	39,000
Development cost	6,800	8,200
Investments	1,300	1,900
Current assets		
Inventories	6,000	6,800
Trade receivables	5,000	2,500
Less: Provision for doubtful debts	(1,000)	(500)
Tax recoverable	-	400
Cash in hand	400	600
	42,500	58,900
Equity and Liabilities		
Ordinary share of RM1 each	20,000	30,000
Share premium	2,000	4,000
Retained profit	5,500	5,960
Asset revaluation reserve	1,800	1,800
Non-current liabilities		
5% Loan notes	5,200	6,600
Lease creditors	1,800	2,400
Current liabilities		
Accounts payable	1,500	2,040
Bank overdraft	1,000	1,400
Tax payable	200	-
Interest payable	700	1,000
Lease creditors	1,800	2,000
Dividend payable	1,600	1,700
	42,500	58,900

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Additional information:

i. During the year, ABC Bhd acquired an equipment for RM1,200,000 under a finance lease.

ii. Land costing RM4,000,000 was revalued to RM4,600,000 and the surplus on revaluation was incorporated in the accounts.

iii. Plant costing RM1,000,000, with a carrying value of RM400,000, was sold for RM500,000. Depreciation charged for the year amounted to RM1,040,000.

iv. Development cost capitalised during the year was RM4,000,000.

v. Investments include 20% short-term investments which qualify as cash equivalent.

vi. Income tax expense for the year was RM1,200,000.

vii. Dividend income of RM600,000 was included in the current year's profit and ABC Bhd paid interim dividends of RM300,000 during the year. The board of directors have declared a final dividend of RM1,700,000 at the end of the financial year.

viii. Interest expenses incurred during the year was RM1,000,000 of which RM100,000 was interest expense on the finance lease.

ix. During the year, ABC issued 5% loan notes at a discount of 10%. The 10% discount on the loan notes had been fully written off against the current year's profits.

x. A number of ordinary shares were issued during the year for cash at a premium. In addition, the company made a bonus issue out of retained profit of one (1) for every ten (10) shares, based on the opening share capital.

Instructions:

a) Prepare the Statement of Cash Flows for ABC Bhd for the year ended 31 December 2014 in accordance with MFRS 107: *Statement of Cash Flows*.

(15 marks)

b) Comment on the financial performance of ABC Bhd based on the Statement of Cash Flows that you have prepared in part (a).

(2 marks)

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Part B

MFRS 136: *Impairment of Assets* requires an entity to assess whether there are any indications that an asset is impaired.

Instructions:

Briefly explain any three (3) indicators of asset impairment. (3 marks)

(Total: 20 marks)

QUESTION 3

Part A

Food Paradise Berhad acquired a franchise amounting to RM500,000 on 1 January 2012. The economic life of the franchise is ten years. The company adopts the revaluation model. The fair value of the asset on 31 December 2013 was RM420,000. However, on 31 December 2014, the fair value of the asset could not be identified.

Instructions:

a) Discuss the accounting treatment for the year 2012, 2013 and 2014, in accordance to MFRS138: *Intangible Assets*.

(8 marks)

b) Prepare the journal entries for the transactions in 2013. (2 marks)

Part B

BFF Bhd, purchased a machine costing RM900,000 on 1 July 2013. On this date, it received a government grant of 20% of the machine cost price. The expected useful life of the machine is five years. BFF Bhd adopts the straight-line method of depreciation with a residual value of RM50,000. The company's financial year end is 31 December.

Instructions:

In accordance to MFRS 120: *Accounting for Government Grants and Disclosure of Government Assistance*:

a) Illustrate how the grant shall be accounted for in the Statement of Comprehensive Income and Statement of Financial Position for the financial year 2013 and 2014, if the company set up the grant as deferred income.

(6 marks)

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b) Illustrate how the grant shall be accounted for in the Statement of Comprehensive Income and Statement of Financial Position for the financial year 2013 and 2014, if the company writes off the grant against assets.

(4 marks)

(Total: 20 Marks)

QUESTION 4

OPQ Bhd. acquired 1.2 million shares of RST Sdn. Bhd. on 1 January 2011. The retained profit of RST Sdn. Bhd. on that date was RM900,000.

Below are the statements of financial position of OPQ Bhd. and RST Sdn. Bhd. as at 31 December 2014.

	OPQ Bhd. RM'000	RST Sdn. Bhd. RM'000
Ordinary shares (RM1 each)	1,800	1,500
10% preference shares (RM1 each)	500	-
10% redeemable preference shares (RM1 each)	-	200
Retained profit	700	600
Current liabilities	300	100
	3,300	2,400
Building (cost)	700	1,600
Accumulated depreciation	(200)	(100)
Plant and machinery	300	840
Accumulated depreciation	(100)	(420)
Furniture and fittings	150	240
Accumulated depreciation	(30)	(150)
Investment in RST Sdn. Bhd.		
- ordinary shares	2,100	-
- 100,000 10% redeemable preference shares	100	-
Current assets	280	390
	3,300	2,400

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Additional information:

i. On 1 January 2011, the fair values and other details of non-current assets of RST Sdn. Bhd. were:

	Carrying amount	Fair value	Remaining useful life
	RM'000	RM'000	
Building	1,580	1,580	79
Plant & machinery	756	900	9
Furniture & fittings	210	280	7

There has been no an addition to or disposals of non-current assets from 1 January 2011 in RST Sdn. Bhd.

ii. Non-current assets are depreciated using the straight-line method.
iii. Included in the current assets of OPQ Bhd. is RM45,000 due from RST Sdn. Bhd. However, RST Sdn. Bhd. has remitted RM10,000 on 31 December 2014 which OPQ received on 1 January 2015.
iv. Goodwill is impaired by 50%.

Instructions:

Prepare the consolidated statement of financial position as at 31 December 2014. Show all relevant workings.

(Total: 20 Marks)

QUESTION 5

Part A

Abacus Bhd had the following loans in place at the beginning and end of 2014.

	1 January 2014 RM'million	31 December 2014 RM'million
10% Bank loan repayable 2016	180	120
9.5% Bank loan repayable 2017	120	80
8.9% debenture repayable 2015	-	150

The 8.9% debenture was issued to fund the construction of a qualifying assets (a piece of mining equipment), construction of which began on 1 December 2014.

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On 1 January 2014, Abacus Bhd began construction of a qualifying asset, a piece of machinery for a hydro-electric plant, using existing borrowings. Expenditure drawn down for the construction was: RM60 million on 1 January 2014 and RM40 million on 1 October 2014.

Instructions:

In accordance to MFRS 123: *Borrowing Costs*:

a) Calculate the borrowing costs that can be capitalized for the hydro-electric plant machine. Show all relevant workings.

(4 marks)

b) Calculate the borrowing cost for the hydro-electric plant machine that should be reported in the Statement of Comprehensive Income for the year ended 31 December 2014.

(2 marks)

c) Describe the rules relating to the commencement, suspension and cessation of capitalization of borrowing cost on a qualifying asset.

(4 marks)

Part B

On 1 March 2013, XYZ Bhd. used its excess cash to buy a factory for investment purposes. The factory was rented out to another manufacturer. The factory costs RM298 million and is expected to have a useful life of 60 years with a salvage value of RM10 million. It adopts a 31 December accounting year end and the straight-line basis of depreciation.

Instructions:

In accordance to MFRS 140: *Investment Property,*

a) Prepare all relevant journal entries for year 2013 and 2014, if XYZ Bhd. adopts the cost model in measuring its investment properties.

(6 marks)

b) Assumed that the market value of the factory is RM320 million as at 31 December 2013 and RM300 million as at 31 December 2014, prepare all relevant journal entries for year 2013 and 2014, if XYZ Bhd. adopts the fair value model in measuring its investment properties.

(4 marks)

(Total: 20 Marks)
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